



State of California  
*Employment Training Panel*

*Arnold Schwarzenegger, Governor*

April 30, 2009

Darin Holcombe, Chief Financial Officer  
Hitchcock & Holcombe, Inc.,  
8421 Auburn Blvd., Suite 150  
Citrus Heights, CA 95610

Dear Mr. Holcombe:

Enclosed is our final report relative to our review of Hitchcock & Holcombe Inc.'s compliance with the Employment Training Panel Agreement No. ET05-0103 for the period July 5, 2004 through July 4, 2006.

Also enclosed is a demand letter for payment of costs disallowed in the review report. Payment is due upon receipt of this letter. If you wish to appeal the review findings, you must follow the procedure specified in Attachment A to the review report.

We appreciate the courtesy and cooperation extended to our auditor during the review. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758.

Sincerely,

*Original signed by:*

Stephen Runkle  
Audit Manager

Enclosures

cc: Steve Hitchcock, Chief Executive Officer

# **HITCHCOCK & HOLCOMBE, INC.**

Agreement No. ET05-0103

Final Review Report

For The Period

July 5, 2004 through July 4, 2006

Report Published April 30, 2009

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# REVIEW REPORT

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## Summary

We reviewed Hitchcock & Holcombe, Inc.'s compliance with Agreement No. ET05-0103, for the period July 5, 2004 through July 4, 2006. Our review pertained to training costs claimed by the Contractor under this Agreement. Our review was performed during the period February 26, 2008 through May 1, 2008.

The Employment Training Panel (ETP) reimbursed the Contractor a total of \$423,771. Our review supported \$416,332 is allowable. The balance of \$7,439 is disallowed and must be returned to ETP. The disallowed costs resulted from 13 trainees who were not eligible for the Advanced Technology training reimbursement rate, 2 ineligible trainees, 1 trainee employed in an ineligible occupation, and 1 trainee who did not meet retention period requirements. We also noted an administrative finding for inaccurate reporting of trainee wage rates.

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## REVIEW REPORT (continued)

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### Background

Hitchcock & Holcombe, Inc., (H & H) is a private training agency providing computer training for corporations, county and state agencies, and non-profit organizations.

This was the second training agreement between H & H and ETP. The training project sought to improve current computer skills among workers to increase overall efficiency and productivity. Based on specific training needs assessments conducted with participating employers, programs were designed to address workplace demands for training in information processing, data collection, and computer technology. Therefore, the Agreement provided for training in computers skills and advanced technology.

This Agreement allowed Hitchcock & Holcombe, Inc. to receive a maximum reimbursement of \$546,445 for retraining 710 employees. During the Agreement term, the Contractor placed 544 trainees and was reimbursed \$423,771 by ETP.

### Objectives, Scope, and Methodology

We performed our review by authority of Title 22 California Code of Regulations, Sections 4443 and 4448. Our overall scope was limited to reviewing the Contractor's compliance with trainee eligibility and post-training requirements specified in the Agreement. However, we did also review a limited sample of the Contractor's records for compliance with type of training delivered.

Specifically, our review scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees received the type of training for which reimbursement rates specified in the Agreement were paid.
- Trainees were eligible to receive ETP training.
- Trainees were employed continuously full-time with a participating employer for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.
- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.

### Conclusion

As summarized in Schedule 1, the Summary of Review Results, and discussed more fully in the Findings and Recommendations Section of our report, our review supported \$416,332 of the \$423,771 paid to the Contractor under this Agreement is allowable. The balance of \$7,439 is disallowed and must be returned to ETP.

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## REVIEW REPORT (continued)

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### Views of Responsible Officials

The review findings were discussed with Darin Holcombe, Chief Financial Officer, and Steve Hitchcock, Chief Executive Officer, during a telephone exit conference held on June 19, 2008 and on June 25, 2008 via e-mail. Mr. Holcombe agreed to bypass issuance of the draft report and proceed to the final review report.

The issuance of your final review report has been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning May 2, 2008, through the issue date of this final review report. The interest waiver (adjustment) was \$540.19, which was deducted from the total accrued interest.

### Appeal Rights

If you wish to appeal the review findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).

### Records

Please note the ETP Agreement, Paragraph 5 (a.1), requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or three (3) years from the date of resolution of appeals, audits, claims, exceptions, or litigation, whichever is later."

Stephen Runkle  
Audit Manager

Fieldwork Completion Date: May 1, 2008

*This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET05-0103 and should not be used for any other purpose.*

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# SUMMARY OF REVIEW RESULTS

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## HITCHCOCK & HOLCOMBE, INC.

AGREEMENT NO. ET05-0103

FOR THE PERIOD

JULY 5, 2004 THROUGH JULY 4, 2006

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$ 423,771</u>	
Costs Disallowed:		
Unsupported Advanced Technology Reimbursement Rate	4,937	Finding No. 1
Ineligible Trainees	1,112	Finding No. 2
Ineligible Trainee Occupation	834	Finding No. 3
Post-Training Retention Requirement Not Met	556	Finding No. 4
Inaccurate Reporting	-	Finding No. 5
Total Costs Disallowed	<u>\$ 7,439</u>	
Training Costs Allowed	<u><u>\$ 416,332</u></u>	

\* See Findings and Recommendations Section.

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## FINDINGS AND RECOMMENDATIONS

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**FINDING NO. 1 –**  
Unsupported  
Advanced  
Technology  
Reimbursement  
Rate

Training records maintained by Hitchcock & Holcombe, Inc. (H & H) did not support the Advanced Technology reimbursement rate of \$20 per hour plus support costs claimed for 6 Job No. 5 trainees and 7 Job No. 6 trainees. Therefore, we disallowed \$4,937 in training costs claimed for these trainees.

Title 22 California Code of Regulations, Section 4411(a) states in part: "...standardized fixed-fee rates per hour may vary depending on the training delivery method (e.g., classroom/laboratory), [and] complexity of the training..." The reimbursement rate for this Agreement was \$13 per hour plus a support cost factor of 1.0696 for Computer Skills training, and \$20 per hour plus a support cost factor of 1.0696 for Advanced Technology training.

Paragraph 2 (b) of the Agreement between ETP and H & H states: "Each trainee should complete 100% of the required class/lab and videoconference training hours. The Panel will not reimburse the Contractor for a trainee who does not complete a minimum 80% of the required class/lab and videoconference training."

Exhibit A, Chart 1, of the Agreement specifies that Job No. 5 trainees are required to receive a minimum of 40 hours of Advanced Technology training to be reimbursed \$855 per trainee. Job No. 6 trainees are required to receive a minimum of 60 hours of Advanced Technology training to be reimbursed \$1,283 per trainee.

Exhibit A, Paragraph VI. A. of the Agreement states, "Contractor shall provide training pursuant to the Curriculum in Exhibit B." Exhibit B, page 4 of 7, identifies the Microsoft course topics Word, Excel, Outlook, Access, PowerPoint, Project, and Visio as Computer Skills training. These training topics are not included in the Advanced Technology Curriculum specified in Exhibit B for Job Nos. 5 and 6.

We reviewed two multi-day training rosters maintained by H & H dated September 20, 2004 through October 19, 2004 (Roster No. 1) and October 20, 2004 through November 23, 2004 (Roster No. 2). H & H reported class/lab hours recorded on these rosters as Advanced Technology (AT) training for the Job No. 5 Trainee Nos. 1, 6, 7, 8, and 11, and Job No. 6 Trainee Nos. 2, 3, 4, 5, 9, 12, 13 and 14. However, the Microsoft course titles recorded on these rosters were Project 2000, Outlook 2000, Excel 2000, Excel Charts, Excel Worksheet, Word 2000, PowerPoint 2000, Access 2000, and Visio 2000. No AT course topics included in the Agreement curriculum appear on these rosters.



## FINDINGS AND RECOMMENDATIONS (continued)

Thus, these class/lab hours, where only Computer Skills (CS) training was delivered, were misreported to ETP as AT, and reimbursement at the higher AT rate specified for Job Nos. 5 and 6 was unearned for these trainees since they failed to complete at least 80 percent of the AT training required for Job Nos. 5 and 6. Therefore, we disallowed the difference between AT and CS reimbursement rates specified in the Agreement for these trainees. The table below shows each trainee's reported AT training hours, CS hours misreported as AT hours, reported AT hours less misreported CS hours, minimum AT hours required, percentage of AT hours supported per review, and disallowed costs representing the difference between AT and CS reimbursement rates.

Trainee No.	Job No.	Total AT Trg Hours Reported per Trainee	CS Trg Hrs Misreported as AT Hrs per Review of Sample Rosters No. 1 & 2	Reported AT Trg Hrs Less Misreported CS Hrs	Minimum AT Trg Hours Required by Job No.	Percentage of AT Trg Hrs Supported per Review of Sample Rosters No. 1 & 2	Disallowed Costs
1	5	32	32	0	40	0%	\$ 299
2	6	48	16	32	60	53%	\$ 449
3	6	60	60	0	60	0%	\$ 449
4	6	60	48	12	60	20%	\$ 449
5	6	60	60	0	60	0%	\$ 449
6	5	40	32	8	40	20%	\$ 299
7	5	32	32	0	40	0%	\$ 299
8	5	32	16	16	40	40%	\$ 299
9	6	60	56	4	60	7%	\$ 449
11	5	32	24	8	40	20%	\$ 299
12	6	60	40	20	60	33%	\$ 449
13	5	32	32	0	40	0%	\$ 299
14	6	60	60	0	60	0%	\$ 449
<b>Total</b>							<b>\$ 4,937</b>
<b>Note:</b>							
Disallowed Costs for Job No. 5 Trainees = \$855 (40hrs x \$20 per hr plus support costs) - \$556 (40hrs x \$13 per hr plus support costs)							
Disallowed Costs for Job No. 6 Trainees = \$1,283 (60hrs x \$20 per hr plus support costs) - \$834 (60hrs x \$13 per hr plus support costs)							

**Recommendation** H & H must return \$4,937 to ETP. In the future, the Contractor should ensure that only training topics specified in the Agreement as Advanced Technology are submitted to ETP for the Advanced Technology reimbursement rate.

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## FINDINGS AND RECOMMENDATIONS (continued)

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**FINDING NO. 2 – Ineligible Trainees** Employment information shows two Job No. 1 trainees were not employed full-time by a participating employer as of the start of training. Therefore, we disallowed \$1,112 in training costs claimed for these trainees (\$556 x 2).

Exhibit A, paragraph III of the Agreement between ETP and H & H requires that retrainees be employed full-time by the Contractor as of the start date of that individual's training.

H & H reported to the ETP reviewer that Trainee No. 10 completed training from October 27, 2005, to November 15, 2005. However, employer information obtained via Employment Verification Questionnaire indicates Trainee No. 10 terminated employment on February 18, 2005, prior to the start of training. Employment Development Department (EDD) base wage information supports the termination date reported by the employer, and shows no other prior or subsequent employment within the Agreement term. Thus, Trainee No. 10 was not employed by a participating employer as of the start of and/or during training.

H & H reported to the ETP reviewer that Trainee No. 15 completed training from October 14, 2005, to December 8, 2005. However, employer information obtained via Employment Verification Questionnaire indicates Trainee No. 15 terminated employment on July 5, 2005, prior to the start of training. Employment Development Department (EDD) base wage information supports the termination date reported by the employer, and shows no other prior or subsequent employment until the 2<sup>nd</sup> quarter of 2006. Thus, Trainee No. 15 was not employed by a participating employer as of the start of and/or during training.

**Recommendation** H&H must return \$1,112 to ETP. In the future, the Contractor should ensure that all retrainees are employed by a participating employer as of the start of training.

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## FINDINGS AND RECOMMENDATIONS (continued)

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**FINDING NO. 3 – Ineligible Trainee Occupation** Employment information shows one Job No. 6 trainee was not employed after training in an occupation specified in the Agreement. We previously disallowed \$449 in training costs claimed for Trainee No. 9 in Finding No. 1. Thus, we have disallowed the remaining \$834 training costs claimed for this trainee (\$1,283 – \$449).

Exhibit A, paragraph VII. A. of the Agreement states, “Employment for each trainee shall be in the occupations listed in [the Agreement]...” The occupations identified in the Agreement for Job No. 6 trainees were Computer Assisted Design (CAD) Operators, Designers, Engineers, Programmers, and Managers.

Employer information obtained via Employment Verification Questionnaire indicated that Trainee No. 9 was employed as a “Warehouse Staff Clerk,” performing duties associated with the maintenance and inventory of equipment and shipping customer orders. Thus, Trainee No. 9 was not employed in an occupation specified in the Agreement, nor did he perform duties related to Advanced Technology training specified for Job No. 6.

**Recommendation** H&H must return \$834 to ETP. In the future, the Contractor should ensure all trainees are employed in occupations identified in the Agreement before claiming reimbursement from ETP.

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## FINDINGS AND RECOMMENDATIONS (continued)

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<b>FINDING NO. 4 –</b> Post-Training Retention Requirement Not Met	<p>Employment information shows one Job No. 1 trainee did not meet post-training retention requirements. Therefore, we disallowed \$556 in training costs claimed for this trainee.</p> <p>Exhibit A, paragraph VII. A. of the Agreement between H &amp; H ETP states, “Each trainee must be employed full-time, at least 35 hours per week, with a single participating employer for a period of at least ninety (90) consecutive days immediately following the completion of training.”</p> <p>H &amp; H reported that Trainee No. 16 completed a post-training retention period from November 16, 2005, through February 16, 2006. However, employer payroll information obtained via Employment Verification Questionnaire indicates that Trainee No. 16 terminated employment on December 12, 2005. Thus, Trainee No. 16 was retained for only 26 days of the 90 days required by the Agreement. Employment Development Department base wage information supports the employer-reported termination date and shows no subsequent employment in California within the term of the Agreement.</p>
<b>Recommendation</b>	<p>H &amp; H must return \$556 to ETP. In the future, Contractor should ensure that trainees meet post-training retention requirements prior to claiming reimbursement from ETP.</p>

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## FINDINGS AND RECOMMENDATIONS (continued)

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**FINDING NO. 5 –** Trainee hourly wage rates reported by H&H on invoices submitted to ETP were inaccurate. As a result, the Contractor did not comply with Agreement reporting requirements.

Inaccurate Reporting

Paragraph 2 (d) of the Agreement states, “Contractor shall submit invoices and necessary statistical data to ETP in form and manner prescribed by ETP.” Accurate, complete trainee wage rate information is required to verify compliance with Exhibit A, page 4, Paragraph VII.A of the Agreement. This section states, “Each trainee must be employed full-time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

We documented actual trainee wage rates based on employer responses for 32 of the 54 initial random sample trainees. Trainee wage rates reported by H & H varied by 5 percent or more from actual wage rates for 29 of the 32 trainees (91 percent).

**Recommendation** In the future, H & H should ensure all trainee data submitted to ETP is accurate and complete. Inaccurate or incomplete data may result in repayment of unearned funds, plus applicable interest, to ETP.

# ATTACHMENT A - Appeal Process

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## 4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
  - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
  - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
    - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
      - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
      - (2) Conduct a hearing on a regularly-scheduled meeting date; or
      - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
    - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
    - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

**Amended: December 30, 2006**